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# The Universal Service Administrative Company

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## July 27, 1999 Minutes

### Board of Directors Meeting

A meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Ronald Reagan Building/International Trade Center, 1300 Pennsylvania Avenue, N.W., Washington, D.C., on Tuesday, July 26, 1999. Ms. Lisa Rosenblum, Chair of the USAC Board of Directors, called the meeting to order at 8:32 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to Ms. Cheryl Parrino called the roll for Mr. Robert Haga, Acting Secretary.

#### Fourteen of the nineteen members were present, representing a quorum:

Butler, John (Tony) – <i>by telephone</i>	Eichler, Ed
Gold, Heather	Gumper, Frank
Hess, Kevin	Hogerty, Martha – <i>by telephone</i>
Lineberry, Isiah	Ouye, Kathleen
Parrino, Cheryl	Rehberger, Wayne
Rosenblum, Lisa	Sanders, Dr. Jay
Talbott, Brian	Wheeler, Tom

#### Two members joined the meeting in progress:

Abramson, David	Marockie, Dr. Hank
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#### Three members were absent:

Bryant, Anne	Jackson, Jimmy
Thoms, Allan	

#### Officers of the Corporation present:

Haga, Robert – Acting Secretary/Treasurer	
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#### Others present for the meeting:


Name	Company
Barash, Scott	USAC
Bellucci, Vicky	MCIWorldCom



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Blackwell, Mel	USAC
Boyle, Hugh	FCC
Harrison, Gina	NECA
Hays, John	FCC
Hood, Bob	FCC
Howard, Cathy	USAC
Kiser, Cherie	Mintz, Levin, Cohn, et al.
Levy, Ken	NECA
Moore, Kate	USAC
Packer-Tursman, Judy	Pittsburgh Post- Gazette
Ricker, John	NECA

### Action Items:

1. **Approval of Minutes of Tuesday, April 20, 1999** –  
On a motion duly made and seconded, the Board approved the minutes, as amended, of the Board of Directors' meeting of Tuesday, July 26, 1999.
2. **Approval of the 1998 Rural Health Care Corporation, Schools and Libraries Corporation, and Universal Service Administrative Company Financial Audit and the Universal Service Administrative Company Agreed Upon Procedures Audit** – Ms. Parrino reviewed the status of the audits and stated that the auditors have given USAC a clean bill of health. The final audit papers should be received and signed in the near future. There are only two things left for USAC to do: (1) let the FCC know about any information in the audit that needs to be kept confidential; and (2) send a response letter to Arthur Andersen expressing USAC's agreement with the outcome of the audit and thanking them for their service. Ms. Parrino said that she has read through the draft audit once and has not found anything that would be considered confidential information, but will have staff review it one more time.

The initial budget for the audits was \$80,000 with an additional \$120,000 approved at the April Board meeting. The financial audit has cost approximately \$90,000 thus far but USAC has not yet been billed for the costs incurred by Arthur Andersen for its work with the FCC which is estimated to cost an additional \$20-30,000. The audit of the carriers is still in

progress with an estimated cost of \$100,000.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors approves the combined and combining 1998 financial audits of the Universal Service Fund and the High Cost, Low Income, Rural Health Care, and Schools and Libraries Programs based on the approval by the RHC Committee of the administrative expenses of the RHCC, the approval by the SL Committee of the administrative expenses of the SLC, and the recommendation of the High Cost and Low Income Committee as it relates to the administrative costs of USAC and NECA, and

**RESOLVED FURTHER**, That the USAC Board of Directors approves the 1998 financial audit of the Universal Service Administrative Company, including the High Cost and Low Income Program based on the approval by the High Cost and Low Income Committee as it relates to the administrative costs of the Program, and

**RESOLVED FURTHER**, That the USAC Board of Directors accepts the recommendation of the High Cost and Low Income Committee to approve the USAC agreed upon procedures audit and directs management to inform the Board when corrective action has been completed regarding the issues identified in the audit, and

**RESOLVED FURTHER**, That the USAC Board of Directors authorizes the CEO to send a management response to Arthur Andersen accepting the financial audits and agreed upon procedures reports and committing to take corrective action to address the minor technical and process issues that were identified in the agreed upon procedures audit.

3. **Authorization to File 1999 Draft Financial and Operational Audit Plans with the FCC** – Ms. Parrino reported that audit plans should be filed with the FCC by August 1, 1999. Arthur Andersen has been chosen for the USAC and HCLI audits. A Request for Proposal will be sent out by August 15, 1999, for operational audits of the Schools and Libraries and

the Rural Health Care Programs; the draft audits are due to the FCC by March 1, 2000.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation of the High Cost and Low Income Committee to authorize USAC to file with the FCC audit staff the proposed draft USAC financial audit plan and operational audit plan modified to reflect the merger and the change in accounting and payroll contractors.

4. **Board Approval of the Variances between the Quarterly Contribution Base Amounts Approved by the Board and the Contribution Base Amounts Filed with the FCC** – Mr. Haga pointed out that the wrong numbers were listed in the agenda item—only the High Cost & Low Income Program numbers were entered. He will forward an updated agenda item to all members after the meeting. In looking at the history of filed projections versus projections approved by the Board, it has been determined that there is little variance for the Schools & Libraries and the Rural Health Care Programs, but as much as almost 5 percent variance for the High Cost & Low Income Program. The variance is a result of late filings, or modifications to the filings of Form 457 by carriers. The FCC sets the contribution factor:  $\text{Program Demand/Revenue Base} = \text{Contribution}$ , so it is important that the most recent information be filed. The Board amended the resolution to reflect only a dollar variance threshold and to set different dollar thresholds for the two revenue bases.

On a motion duly made and seconded, the Board unanimously adopted the following amended resolutions:

**RESOLVED**, That the USAC Board of Directors, having reviewed a summary of the variances in the reported Contribution Base amounts for the quarterly filings to-date hereby authorizes prior Contribution Base variances in amounts reported to the FCC, and

**RESOLVED FURTHER**, That the USAC Board of Directors authorizes USAC staff to file Contribution Base amounts with variances not exceeding \$5.0 billion for the international, interstate, and intrastate revenue base and \$2.5 billion

for the international and interstate revenue base of the Board approved contribution base amounts, and variances at or below the above level are deemed approved by the Board. Any variances above \$5.0 billion for the international, interstate and intrastate revenue base and \$2.5 billion for the international and interstate revenue base must have full Board approval before staff submits the filing to the FCC.

**5. Recommended Deadline for True-up of Form 457**

– Ms. Parrino explained that USAC staff recommends setting a deadline for carriers to submit a revised Form 457. There is no deadline right now and it is very costly administratively to continually true up the numbers every time USAC receives a revised form.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors directs staff to no longer accept carrier initiated requests for changes in revenues reported on prior FCC Form 457 beyond 12 months from the initial submission of the Form in question, and

**RESOLVED FURTHER**, That the USAC Board of Directors directs staff to inform telecommunications service providers of the decision to establish a time limit on carrier initiated changes.

**6. USAC Collection Procedures for Contributors in Bankruptcy**

– Ms. Parrino explained that telecommunications carriers that are required to contribute to the Universal Service Fund are increasingly filing bankruptcy. USAC proposes a change in the *USAC Collection Procedures for Contributors in Bankruptcy* to reflect language that will enable staff to write-off late payment charges for companies in Chapter 7 bankruptcy proceedings.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors, having reviewed at its meeting on July 27, 1999, a summary of the current status of the *USAC Collection Procedures for Contributors in Bankruptcy*, hereby directs staff to proceed with the update to the *USAC Collection Procedures for Contributors in*

*Correction Procedures for Contributors in Bankruptcy* allowing for Executive Director level approval for waivers of Late Payment Charges up to \$0.5 Million.

7. **Selection of January 2001 Board of Directors Quarterly Meeting Date** – Staff was requested to find different dates for the January 2001 quarterly Board meeting since the suggested dates of January 22 and 23 may conflict with events surrounding the Presidential Inauguration. The Monday and Tuesday of the following week is being suggested with the stipulation that USAC request an extension from the FCC on the quarterly filing date of February 1.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors schedule January 29 and 30, 2001, as the dates for the quarterly USAC Board of Directors' meetings for January 2001.

8. **Consolidation of Data Collection and Authorization to Issue an RFP** – Ms. Parrino explained that the FCC has issued a public notice soliciting comments on consolidating the process of revenue data collection for USAC and the administrators of three other programs. Currently carriers must file four different forms. While the method of allocating costs has been decided, who will collect the data has not. The National Exchange Carrier Association (NECA) is interested as it is already doing the work for two of the programs. USAC is also interested in being responsible for the data collection because it already collects data twice a year, it is the largest of the four programs, and it is a neutral entity.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors determines that it is interested in being designated as the entity responsible for the data collection and directs staff to inform the FCC, and

**RESOLVED FURTHER**, That the USAC Board of Directors authorizes USAC staff to issue a Request for Proposal to perform the billing, collection, and disbursement activities of the corporation including the data collection.

9. **Criteria for Determining Whether a Financial Interest Constitutes a Conflict of Interest** – Ms. Parrino recalled for the Board that at the October 1998 quarterly Board meeting, the Board approved a Code of Ethics for USAC employees. However, guidelines for determining if a conflict exists for employees who have filed a financial disclosure form indicating that he or she has a financial interest greater than \$5,000 in one of the stakeholders of the programs of USAC have not been established. This action item resolution attempts to do just that.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation made by the Executive Committee to approve the proposed guidelines for determining if a conflict of interest exists for employees having a financial interest greater than \$5,000 in one of the stakeholders of the programs that USAC administers.

10. **Establishment of a Training and Education Policy for USAC** – Ms. Parrino explained that USAC does not have a staff training policy or a policy regarding tuition reimbursement for education, although money is currently included in the budget. In developing the policy that is before the Board today, Ms. Parrino reviewed the Training and Education Policies of such entities as the United Way, the State of Wisconsin, and three other not-for-profit organizations. She did not look at the Federal policy. The Board requested that Ms. Parrino review the Federal policy against this USAC policy to determine if there are any inconsistencies. If there are no inconsistencies, the policy can go into effect; if there are major differences, the policy should come back to the Board for approval.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

**RESOLVED**, That the USAC Board of Directors accepts the recommendation made by the Executive Committee to approve the proposed *Training and Education Policy* for USAC employees provided there are no significant inconsistencies with the Federal guidelines. If there are significant inconsistencies, the policy should be brought back to the Board for further review

review.

11. **4<sup>th</sup> Quarter 1999 USAC Common and Consolidated Budget** – Ms. Parrino reported that the Executive Committee (EC) discussed the budget in great detail, especially the cost associated with the high cost data collection performed by NECA. The EC recommends that the change in accounting be approved and that the budget clearly indicate that these costs have always been a part of the administrative costs of the program and that these costs are not within USAC's control. Ms. Parrino distributed a revised Attachment B and C of the agenda item, Consolidated Budget spreadsheets, to reflect the changes recommended by the EC. The High Cost & Low Income Committee went a step further and requested that staff communicate with the FCC on how this budgetary item is beyond the control of USAC as a result of an FCC decision and ask them if USAC's proposed change is appropriate.

Ms. Parrino reported that the budget increased 3.5 percent or approximately \$1.2 million due to the significant items listed in Attachment C.

On a motion duly made and seconded, the Board unanimously adopted the following resolutions:

**RESOLVED**, That the USAC Board of Directors approve a 4<sup>th</sup> Quarter 1999 USAC common budget of \$718,500, and

**RESOLVED FURTHER**, That the USAC Board of Directors approves a 4<sup>th</sup> Quarter 1999 USAC consolidated budget of \$9,140,800.

12. **4<sup>th</sup> Quarter 1999 Revenue Projections and Resolutions on July FCC Filing** – Mr. Haga reported that nineteen carriers reported revenues since the original attachments were printed so the numbers on Attachment A need to change as follows: (1) under 4<sup>th</sup> Quarter, Intrastate, Interstate & International Revenues Reported, change \$101,698,769 to **\$101,213,538**; and (2) under 4<sup>th</sup> Quarter, Interstate & International Revenues Reported, change \$38,496,295 to **\$38,203,999**.

Ms. Parrino also recommended that the resolutions be amended to reflect the new language that was added to agenda item #4 in which the Board amended the resolution to reflect only a dollar variance threshold and also to set different dollar thresholds for the two revenue bases.

On a motion duly made and seconded, the board



On a motion duly made and seconded, the Board unanimously adopted the following amended resolutions:

**RESOLVED,** That the USAC Board of Directors, having reviewed at its quarterly meeting on July 27, 1999, a summary of the current status of telecommunications service provider revenues for calendar year 1998, adjusted for revenues reported for January through June 1998, authorizes staff to proceed with the required July 30, 1999, filing on behalf of USAC, and

**RESOLVED FURTHER,** That the USAC Board of Directors authorizes USAC staff to file Contribution Base amounts with variances not exceeding \$5.0 billion for the international, interstate and intrastate revenue base and \$2.5 billion for the international and interstate revenue base of the Board approved contribution base amounts, and variances at or below the above level are deemed approved by the Board. Any variances above \$5.0 billion for the international, interstate and intrastate revenue base and \$2.5 billion for the international and interstate revenue base must have full Board approval before staff submits the filing to the FCC.

13. **Policy on Board Member Attendance at Board Meetings** – Ms. Parrino stated that as USAC develops and grows, it is necessary to review Board practices and policies and determine if those practices and policies are consistent with other organizations similar to USAC. The USAC Board of Directors does not have a policy on Board member attendance at Board meetings. The experts say that it is good Board practice to have an attendance policy to ensure that the constituency of the Board is being properly represented. The USAC Board does not have the power to remove a member from the Board—that can only be done by the FCC Chairman—but the Board can recommend removal based on policy guidelines in place. If approved, the policy would go into effect immediately, and Board members would contact the USAC Board of Directors' Chairperson or USAC's CEO to report the reason for any absences.

On a motion duly made and seconded, the Board unanimously adopted the following resolution:

**RESOLVED,** That the USAC Board of Directors accepts the recommendation

made by the Executive Committee to adopt the following policy regarding Board member attendance at board meetings:

- Directors should not miss more than one-half (1/2) of the number of regular or special Board meetings (either in person or by telephone) held in any twelve (12) month period, unless the USAC Board Chairman provides an exception for illness or other good reason.
- USAC shall inform the FCC Chairperson if a director misses more than one-half (1/2) of the number of Board meetings in any twelve (12) month period and shall seek his or her guidance.

14. **Criteria for and the Selection of a USAC Secretary and Treasurer** – There was much discussion and Board members were split over the two options included in the issue paper. Ms. Parrino suggested that further discussions one-on-one with Board members might reveal a better consensus.

On a motion duly made and seconded, the Board unanimously agreed to lay the motion on the table.

#### Information Items:

1. **Legislative Activity** – For information only. No discussion held.
2. **Treasurer's Report** – For information only. No discussion held.
3. **Regulatory Report** – For information only. No discussion held.
4. **Status Report on the Readiness of USAC Operations for the Year 2000** – For information only. No discussion held.
5. **Report on Accounts Receivable and Collection Efforts** – For information only. No discussion held.
6. **Report on Form 457 Late Filing Fee** – For information only. No discussion held.
7. **Form 457 Reported Revenue Decreases Greater than 45 Percent** – For information only. No discussion held.

8. **Status of USAC Clarification Requests at the FCC**  
– For information only. No discussion held.
9. **Seeking Tax Exempt Status for USAC** – For information only. No discussion held.
10. **Status of Form 457 Audit** – For information only. No discussion held.
11. **Contract Review – Confidential & Proprietary** – See Executive Session below.
12. **Timeline and Key Dates** – For information only. No discussion held.
13. **Miscellaneous** – None.

#### **Rural Health Care Program:**

1. **Rural Health Care Program Status Report** – For information only. No discussion held.
2. **Status of March 5, 1999, USAC Report to the FCC**  
– For information only. No discussion held.
3. **4<sup>th</sup> Quarter 1999 Rural Health Care Programmatic Budget** – For information only. No discussion held.
4. **4<sup>th</sup> Quarter 1999 Rural Health Care Projections and Resolution on the July FCC Filing** – For information only. No discussion held.
5. **Miscellaneous** – None.

#### **Schools and Libraries Programs:**

1. **Schools and Libraries Program Update** – For information only. No discussion held.
2. **Update on Year 3 Improvements** – For information only. No discussion held.
3. **4<sup>th</sup> Quarter 1999 Schools and Libraries Programmatic Budget** – For information only. No discussion held.
4. **4<sup>th</sup> Quarter 1999 Schools and Libraries Projections and Resolution on the July FCC Filing**  
– For information only. No discussion held.
5. **Miscellaneous** – None.

## High Cost and Low Income Program:

1. **High Cost Program Status Report** – For information only. No discussion held.
2. **Low Income Program Status Report** – For information only. No discussion held.
3. **Proposed Low Income Process Revision** – For information only. No discussion held.
4. **Report on Low Income Audit** – For information only. No discussion held.
5. **Report on the Implementation of a New High Cost Program for Non-rural Companies** – For information only. No discussion held.
6. **4<sup>th</sup> Quarter 1999 High Cost and Low Income Programmatic Budget** – For information only. No discussion held.
7. **4<sup>th</sup> Quarter 1999 High Cost and Low Income Projections and Resolution on the July FCC Filing** – For information only. No discussion held.
8. **Miscellaneous – USAC Competitive Bidding Policy** – This item will not come back to the Board for Board approval; it is for information purposes only.

On a motion duly made and seconded, the Board unanimously agreed to go into **Executive Session** at 9:58a.m. Eastern Time for the purpose of discussing information agenda item #11, Contract Review. All persons except Board members, USAC's counsel representatives, and the minute-taker were asked to leave the meeting.

On a motion duly made and seconded, the Board unanimously agreed to go into Open Session at 10:10 a.m. Eastern Time for purposes of reporting actions taken during *Executive Session*:

## Executive Session

11. **Contract Review** – Ms. Rosenblum reported that USAC staff informed the Board of the status of USAC's current contracts with outside vendors. The Board directed staff to bring a plan of action and timetable of contracting dates to the next quarterly Board meeting in October 1999.

There being no further business to attend to, Ms. Rosenblum adjourned the meeting at 10:31 a.m. Eastern Time.

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Robert W. Haga  
Acting Secretary/Treasurer

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Date

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